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Dr Kathleen Dermody
Committee Secretary
Senate Standing Committees on Economics
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Parliament House
Canberra ACT 2600
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Dear Dr Dermody

Inquiry into the Provisions of the Corporations Amendment (Streamlining of Future of Financial Advice) Bill 2014

BOQ welcomes the opportunity to respond to the issues set out in the terms of reference for the Inquiry.

Our general position is that it would be of benefit to the community if financial advice was more affordable and more accessible. To the extent that the Future of Financial Advice (FOFA) review can achieve those objectives then consumers should benefit.

BOQ is broadly supportive of the submission that the Australian Bankers Association has made to the Inquiry but would like to make an additional short form submission in relation to three specific areas that we believe should be addressed.

These are:

1. Accessibility and Affordability of Financial Advice;
2. Definition of Tier 2 products;
3. Regulation of the Real Estate Industry.

1. Accessibility and Affordability of Financial Advice

Despite the best of intentions of various governments to improve the quality of financial advice BOQ believes that:

- The cost of financial advice is relatively high;
- Financial advice is inaccessible to many;
- Better means are required to deliver useful and affordable advice, particularly where consumers have a specific need.

Only one in five Australians receives advice¹. That is an unacceptably low percentage given the importance of savings and planning for retirement and the need to reduce reliance on Government funded pensions.

It is BOQ's view that a big contributor to the low level of Australians seeking advice is cost and complexity of receiving advice especially advice on a single financial need or with very limited scope. Consumers can benefit by receiving relevant financial information and advice which is provided in the ordinary course of their interactions with their financial institution. This could be achieved in two ways as noted in this submission.

The current structure requires Statements of Advice (SOAs) for Tier 1 products in situations where the consumer's personal circumstances are considered. SOAs can be unnecessarily detailed and complex particularly when it relates to a single product or very limited financial needs (e.g. life insurance).

BOQ believes that FOFA will deny many consumers' access to relevant advice/information about investment, savings, superannuation and insurance.

Recommendations

BOQ submits that two changes to licensing and advice as a means to making financial advice more affordable.

i. Product Sales Advice

It is worth reconsidering the "Product Sales Advice" concept that was proposed in Chapter 1.1 of the Corporate and Financial Services Regulation Review (CFSRR) Proposals Paper of 16 November 2006. The CFSRR Proposals Paper was produced after industry consultation by Treasury at the request of the then Parliamentary Secretary to the Treasurer.

When a consumer engages with a financial institution with respect to financial and wealth products (in person, by phone, websites or social media), she/he would have an expectation that the financial institution will offer its own products. In this regard consumers draw no distinction between a credit card or mortgage product or a superannuation fund provided by the financial institution. The consumer would expect to receive advice on the suitability of the financial institution's product, relevant to the consumers' needs and personal circumstances. BOQ believes it is highly unrealistic to expect that there would be no bias towards an organisation's own products or that the organisation's own products would not feature in the recommendations made to consumers.

The current advice requirements create a complex and costly mechanism to provide advice to consumers on the use of an institutions own products. The cost and complexity is a deterrent to consumers seeking advice and a barrier to consumers receiving useful strategy advice on a range of topics (including non-product based advice on the importance of superannuation and the value of life insurance) that will assist them in understanding and planning their financial life. This is a suboptimal outcome given the low percentage of Australians who receive financial advice.

The proposals for scaled advice will alleviate, to some degree, the cost and complexity issue. But we believe that consumers will still be precluded from gaining economical access to potentially valuable information and advice.

¹ The Future of Financial Advice. Statement by the Minister for Financial Services, Superannuation and Corporate Law, the Hon Chris Bowen MP, 23 June 2010

Consumers will obtain valuable information and advice provided in the course of the pre-sales process. Advice or information provided by a representative of a financial institution (properly trained and accredited) can provide an important component of consumers' financial education and assist with product decisions which are better informed decisions.

As an example, this type of advice would assist a consumer with areas such as:

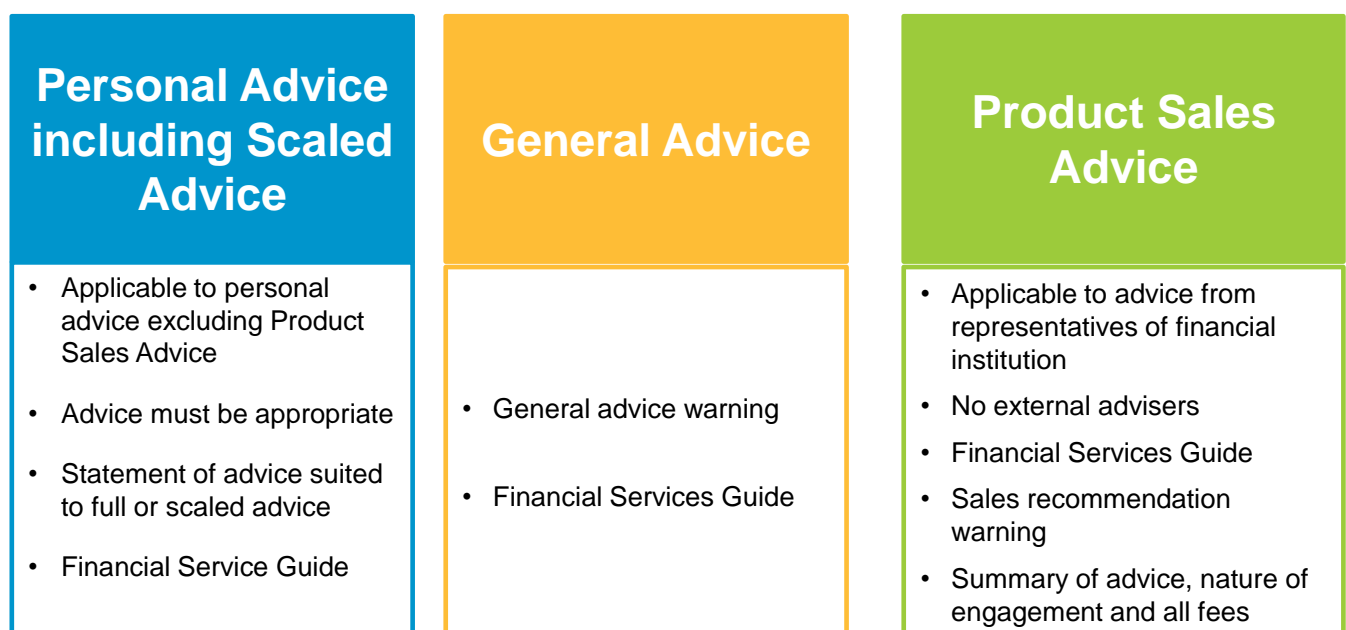
- The principles of how to quantify an adequate amount of life insurance, and
- The potential difference to retirement outcomes by making additional superannuation contributions.

Under this suggestion, no cost is involved unless a product is purchased. The representative must present themselves as a Sales Agent and should a product be recommended by the representative it needs to be made completely clear that the representative is acting in a sales capacity for the institution and not providing independent financial product advice. The consumer has the additional comfort of the 14 day cooling off period should they change their mind.

BOQ supports the reconsideration of the framework in Chapter 1.1 of the CFSRR Proposals Paper with the following suggested modifications:

- Product Sales Advice can only be provided by representatives of financial institutions which are appropriately licenced and which are prudentially regulated;
- A short form summary is required about the nature of engagement with the consumer. It should specify the areas of advice (e.g. suggested life insurance amount, superannuation contribution rate), the products recommended and a recommendation that the consumer seek independent financial advice during the 14 day cooling off. All fees must also be explicitly disclosed;
- Inclusion of APRA regulated Superannuation products. Superannuation products were excluded from the CFSRR proposals, but this was before the standardisation created via MySuper.

BOQ recommends that Product Sales Advice should only be provided by representatives of the financial institution where volume based payments are precluded. It should also only be in situations where the sales representative is only able to recommend the financial institution's own products. In situations where a broader product suite is available the Personal Advice requirements will apply. A schematic of the proposed regime follows.



ii. Definition of Tier 2 Products

BOQ recommends that consideration be given to the expansion of Tier 2 products to include products which are:

- Straightforward;
- Well understood by consumers; and
- Relatively uniform in terms of product features which allows cross product comparisons to be easily undertaken.

The products BOQ recommends for inclusion are:

- Term Life and Total and Permanent Disablement insurance;
- MySuper products.

2. Rationale for Expanding the Scope of Tier 2

Generally, Tier 2 products do not require statements of advice but representatives of the provider can provide advice on product features and product implications.

Tier 2 products currently include basic deposit products, consumer credit insurance and general insurance. The rationale for categorising products as Tier 2 is that those products “are generally simpler and better understood than Tier 1 products” (RG146.38).

BOQ believes that additional product types should be considered for inclusion as Tier 2 products on the basis that they are straightforward and relatively easily understood due to general financial literacy or due to legislated uniformity, or both.

The suggested products are already heavily marketed to consumers from various sources and are obtained readily, either online or directly without any advice being provided. Categorising additional products as Tier 2 would provide greater access to affordable advice and assistance with respect to those product types.

Life insurance and MySuper products are both important. There is a chronic underinsurance issue in Australia and retirement savings need to be promoted to cater for our aging population.

- ***Term Life and Total and Permanent Disablement.***

These products are very straightforward. In nearly all respects Term Life & TPD products are less complex than general insurance products (e.g. the definition of “flood”). It is very easy for a consumer to compare products from different providers. The only areas which typically require some explanation are: pre-existing conditions (no different to health insurance), suicide exclusions, own/any occupation definitions for TPD cover and stepped versus level premiums.

The ability to offer TPD/Term Life insurance over the counter could assist a consumer with the principles of how to quantify an adequate amount of life insurance and important issues to consider. In the context of Australia’s under insurance dilemma this would be a welcome outcome.

- ***MySuper products***

MySuper product design is governed by tight regulation and licensing requirements and has resulted in uniformity across the industry in general features and specifications with the price being the main differentiator. With uniformity across the industry, these products are suitable for Tier 2 classification. MySuper products are already distributed without advice via the default system.

By applying a Tier 2 classification, the public interest is enhanced as it allows broad based education and advice on MySuper. Due to the low cost and uniformity provided by legislation, these products would suit Tier 2. It would open up another information channel for consumers with respect to superannuation.

3. Regulation of the Real Estate Industry

BOQ recommends that the provision of advice on the purchase of real estate, other than for owner occupiers, be included in the definition of financial advice.

Real estate purchases by consumers represent significant investments of wealth and almost always involve some element of debt. It is an anomaly that advice provided on such significant investment decisions is not regulated in the same way as advice on similarly significant investments e.g. superannuation, managed funds, margin lending.

There no is valid reason for the financial services licensing system not to apply to advice with respect to real estate investments. Inclusion of real estate advice would provide a consistent framework for advice standards across all major asset classes.

BOQ also sees that the lack of regulated advice in the real estate sector is one of the driving factors in consumers establishing SMSFs which are not appropriate for those consumers e.g. fund too small to be economic, consumer is not equipped to be a trustee.

We would welcome the opportunity to discuss these matters with you further and look forward to being involved in the inquiry as it progresses.

Yours sincerely

Jon Sutton
Chief Operating Officer
Bank of Queensland Limited